

Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 PA-01 PRS-01 /097 W

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R 060900Z JUN 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 685

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: EFIN, JA

SUBJ: DISCOUNT RATE LOWERED ANOTHER 0.5 PERCENT

PASS TREASURY, FEDERAL RESERVE

REF: TOKYO 6381

1. SUMMARY: IN WIDELY ANTICIPATED MOVE GOJ POLICY BOARD
DECIDED JUNE 6 TO REDUCE DISCOUNT RATE OB 0.5 PERCENT TO 8.0
PERCENT EFFECTIVE JUNE 7. OTHER MODEST MEASURES ARE LIKELY TO BE
TAKEN SHORTLY BY GOJ IN EFFORT TO STEP UP PACE OF ECONOMIC
RECOVERY. END SUMMARY.

2. AT JUNE 6 MEETING BANK OF JAPAN POLICY BOARD LOWERED
DISCOUNT RATE BY 0.5 PERCENT. REDUCTION OF RATE TO 8.0
PERCENT LEVEL CAME IN RESPONSE TO HEAVY PRESSURE FROM
BUSINESS COMMUNITY AND WAS WIDELY ANTICIPATED (REFTEL).

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NEW RATE IS TO TAKE EFFECT JUNE 7.

3. GOJ IS EXPECTED TO REVIEW POSSIBLE NEED FOR ADDITIONAL MEASURES IN NEXT 10 DAYS. EPA OFFICIAL SAID THAT FURTHER MEASURES WOULD PROBABLY BE TAKEN AT JUNE 16 MEETING OF COUNCIL FOR ECONOMIC POLICY HEADED BY DEPUTY PM FUKUDA. ACCORDING TO OFFICIAL, STEPS TO BE TAKEN THEN ARE LIKELY TO CONSIST OF ADDITIONAL FINANCIAL ASSISTANCE TO HOUSING INDUSTRY AND SMALL BUSINESS FINANCE AGENCIES. FURTHER MEASURES TO ACCELERATE PUBLIC WORKS SPENDING ARE UNLIKELY TO BE TAKEN IN OPINION OF EPA OFFICIAL. HE NOTED THAT DIR GEN OF EPA FUKUDA, WHO ALSO DEPUTY PM, WAS DECISIVE FORCE BEHIND APRIL 15 AND JUNE 6 REDUCTIONS IN DISCOUNT RATE BUT FUKUDA REMAINS CONCERNED THAT EXCESSIVE FISCAL STIMULUS THROUGH INITIATION OF MAJOR PUBLIC WORKS PROJECTS MAY REVIVE INFLATION.

4. IMPACT OF DISCOUNT RATE CUT WILL BE SIGNIFICANT IN LOWERING SHORT-TERM MONEY MARKET RATES AND WILL REDUCE PRIME RATE BY ABOUT 0.5 PERCENT TO 8.25 PERCENT. DEPOSIT RATES WHICH FIXED BY MOF WILL, HOWEVER, REMAIN UNCHANGED, IN PART TO PLACATE GENERAL PUBLIC WHICH STILL SMARTING FROM INFLATION.

5. PRESSURE FOR STILL FURTHER REDUCTION IN RATE IN NEAR FUTURE IS ALREADY STRONG. BOJ OFFICIAL ALSO SAID FUKUDA MIGHT FAVOR ANOTHER CUT TO GAIN SUPPORT FROM BUSINESS COMMUNITY. OFFICIAL REPORTED STRONG OPPOSITION AMONG BOJ STAFF MEMBERS TO PRESENT DISCOUNT RATE REDUCTION WHO UNANIMOUSLY AGREE THAT ANY FUTURE CUT CAN ONLY BE JUSTIFIED BY (1) OBVIOUS STAGNATION (NOT MERELY SLOW GROWTH) IN IND PROD, AND (2) DEFINITE CALMING OF CONSUMER PRICE RISE (AFTER MAY INCREASE IN TOKYO CIP OF 1.0 PERCENT).

6. ON OTHER HAND, EPA OFFICIAL ARGUED THAT FURTHER REDUCTION IN DISCOUNT RATE COULD BE USED AS QUID PRO QUO IN AGREEMENT WITH BIG BUSINESS TO REFRAIN FROM THREATENED PRICE INCREASES. IT IS ALSO POSSIBLE THAT FUKUDA NOW REALIZES THAT POTENTIAL COST-PUSH PRESSURES CAN BEST BE MET BY RAPID PRODUCTIVITY ADVANCE WHICH GENERALLY OCCURS DURING INITIAL RECOVERY PHASE.
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Message Attributes

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Disposition Approved on Date:
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Disposition Date: 28 MAY 2004
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Disposition History: n/a
Disposition Reason:
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Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
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TAGS: EFIN, JA, BANK OF JAPAN
To: STATE
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